IFR LATIN AMERICA CAPITAL MARKETS BRIEFING

REGION BENCHMARKS

Bond	Mid-Market	Variation
Brazil23s	89.3	+30ct
Mex 23	100	+25ct
Boden 15	95	-50ct
Vene 22	99.1	+30ct

Source: Thomson Reuters

CDS BENCHMARKS

Contract	Level	Variation
Brazil 5-yr	155bp	-1bp
Mex 5-yr	108bp	-1bp
Arge 5-yr	2315bp	+15bp

Source: Thomson Reuters

MOST TRADED BONDS

Bond	Mid-Market	Variation
Codelco43s	98.8	+30ct
OGX2018	5	-15 ct

Source: Thomson Reuters

DCM LEAGUE TABLE

Bank	Total US$(m)	No. of deals
JP Morgan	10,016.7	37
Citi	9,912.8	40
BofA Merrill Lynch	9,786.1	32
Deutsche Bank	8,850.3	32
HSBC Holdings PLC	7,666.1	27

Source: Thomson Reuters

With a cash cushion and a currency debt mix that comply with rating requirements for investment grade, URUGUAY is now exploring broader options in the international capital markets, including possible forays in yen and Swiss francs.

"We are beginning to see some sovereigns explore the Swiss franc market, but it is an early stage," said Azucena Arbeleche, Uruguay's head of public credit. "For us, it is important that the final cost is competitive with what they are in a dollar curve."

A return to the Samurai sector is also a possibility as the sovereign wants to maintain a presence among Japanese investors, who bought its last yen-denominated bond in May 2011. At the time, the ¥40bn 10-year had a guarantee from the Japan Bank for International Cooperation, but Uruguay would like to follow in Mexico's footsteps and print without JBIC support.

"Ultimately, we would like to issue without a guarantee like Mexico has done," said Arbeleche. "In the meantime, if we have to go with a scheme that has JBIC support, we would do that."

The government itself has raised a cash cushion worth the equivalent of about 4.4% of GDP, reducing refinancing risks considerably. Yet, while much of that is partially hedged through investments in a variety of assets, the spread between what the government earns and what it pays in interest is still large. This, in turn, has taken its toll on fiscal accounts.

"The fiscal impact is significant and that is why we have decided not to increase our financial cushion," said Arbeleche. "Last year, the worse fiscal results were partly because of negative carry."

To overcome this challenge, the sovereign has secured some US$2bn in negotiated contingent credit lines with multilaterals, which do not require interest payments until they are drawn.

However, this comes as the public credit department faces some hurdles to maintain the local currency debt mix that rating agencies so like. Appetite for local currency debt has waned as risk aversion increases ahead of possible tapering in Fed support, and rates in the local market have jumped in the wake of the central bank's efforts to contain inflation through monetary targeting.

Local currency debt now makes up 58% of debt versus 42% in foreign currency debt. That may be above the 45% domestic currency target the government had set itself for 2014, but foreign currency debt is still high relative to the 35% median in similarly rated sovereigns.

"Foreign currency composition is higher, but there are some factors they have addressed," said Erich Arispe, a director at Fitch. "They have mitigated that with [comparatively] high international reserves, the smoothing of their maturity profile and the liquidity cushion."

Indeed, that liquidity cushion allows the sovereign to bide its time and wait for rates to fall from the 14% yields being quoted on its debt in the local market. Arbeleche expects funding costs to shrink eventually, but, for now, the government is sitting on the sidelines as it is unwilling to validate those levels.

"In an environment where it will become more complex to issue in local currency and where we are facing amortizations in local currency, it is a lot of work to keep these levels," Arbeleche said.

Meanwhile, some borrowers are starting to emerge, though most are awaiting some resolution to the debt-ceiling debate in Washington before moving forward. "We have two deals that could announce this week, but, to some extent, we're waiting for the US Government saga to play out," said a senior banker.

Mexican state-owned utility COMISION FEDERAL DE ELECTRICIDAD is already meeting investors this week with *Barclays*, *Citigroup* and *Goldman Sachs*.

The borrower was in London Monday and in Boston and Los Angeles yesterday. It will wrap up meetings in New York and Chicago today and is expected to price as soon as Thursday.

In February last year, it issued a US$750m 30-year bond, priced at 98.33 with a 5.75% coupon to yield 5.868% or 275bp over Treasuries. At the time, the deal marked the lowest coupon a Mexican borrower had paid for 30-year money. BNP Paribas, BBVA and Citigroup acted as leads on that occasion.

That instrument was being quoted yesterday as low as 93.50, or 6.24% on a yield basis.

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The spread over the old US long bond, however, was at 246bp, said one trader.

Recently, the company was in the bank market with a US$1.25bn five-year loan offering a margin of Libor plus115bp. Leads on that borrowing were Bank of America Merrill Lynch, BBVA Bancomer, Bank of Tokyo Mitsubishi, Citigroup, HSBC, Mizuho, Scotia and SMBC.

Brazilian lender OMNI has also issued guidance of 9% area for a small US$30m, 18-month Reg S-only senior unsecured bond. Ratings are B from Fitch. *Espirito Santo Investment Bank* is sole lead.

Equities

Books for the up to US$1bn IPO of largest Mexican milk company GRUPO LALA were 10x covered ahead of pricing late yesterday, said ECM bankers. The deal was expected to price near or at the top end of the Ps23.50–Ps27.50 (US$1.81–$2.11) price range.

The company has a very strong local presence, corning 53% of the milk sales in Mexico. Its Ebitda has risen 16% to Ps4.7bn over the past year, while its revenue is Ps40.34bn.

The company has 17 production plants and 161 distribution centers, according to its prospectus filed on the Mexican Stock Exchange. It plans to use the proceeds from the IPO to expand into Central America, in Mexico and abroad, as well as to prepay debt.

BBVA, *JP Morgan* and *Morgan Stanley* are bookrunners with *Santander* acting as a passive bookrunner.

Meanwhile, Chilean oil-and-gas name GEOPARK LATIN AMERICA is in the middle of investor education for possibly an IPO of US$200m on the New York Stock Exchange. The IPO could be ready to launch as soon as this autumn or before the end of the year, said an ECM banker. *BTG Pactual*, *Itau* and *JP Morgan* are the joint bookrunners.

On February 4, the company saw books reach a peak of close to US$2bn before it priced a US$300m seven-year non-call four at 99.332 with a 7.50% coupon to yield 7.625%, the tight end of guidance to 7.625%–7.750% and well inside initial talk of 7.750%–8.000%. At that time, rarity value of a Single B out of Chile and the fact that GeoPark offers one of the few ways to play the sector may have enticed accounts into the trade.

Local Markets

Chilean mobile telephone operator TELEFONICA MOVILES raised US$138m equivalent in the local market today through a 10-year amortize, coming just months after it failed to emerge with an international deal in the wake of roadshows this summer.

The domestic transaction complements rather than replaced any potential deal in the foreign markets, said a Santiago-based source with knowledge about the deal.

Today's local deal was denominated in inflation-linked units, called unidades de fomento, and came at 98.77 with a 3.60% coupon to yield 3.75%. Size was 3m of these units (one UF unit is roughly equal to US$46m) and demand hit 1.3x. *BBVA* and *Santander* acted as leads. Local ratings are AA+/AA, while final maturity falls on October 4 2023.

Telefonica Moviles Chile finished investor meetings in August via BBVA, Bank of America Merrill Lynch, Citigroup and HSBC. At the time, both Telefonica Moviles and Chilean power generator Colbun decided not move forward with deals after poor secondary performances on recent new issues had impacted buyside sentiment. This complicated price discussions for borrowers already suffering from sticker shock in a rising rate environment.

The wholly owned subsidiary of Telefonica Spain has ratings of BBB (negative) from S&P and BBB+ (stable) from Fitch.

LATIN AMERICA DCM PIPELINE

Issuer	Size (US$m)	Tenor (years)	Leads
Buenaventura	TBD	TBD	BAML/MS
ENAP	TBD	TBD	TBD
Bolivia	TBD	TBD	BAML/HSBC